# ADEPT
# Socioeconomic Commentaries

January-June 2005

**Economic retrospectives & perspectives**
Iurie Gotisan, 18 January 2005

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*Democracy and governing in Moldova*
*e-journal, II year, no. 44, January 3-January 16, 2005*

In terms of economy 2004 was one of Republic of Moldova's best years since it stepped into the dire straits of transition. Economic growth, which according to the preliminary data might reach 7%, made this year quite special, fact acknowledged by economy-watchers, even the most sceptical ones.

Specifically, **economic growth** means a positive change of an aggregated economic indicator, such as GDP, in real terms over a certain period of time. In its turn GDP represents the gross amount of goods and services produced in a country in a given year by domestic and foreign businesses. As a rule, the key indicators considered when calculating GDP are:

- FC - final consumption;
- GFCP - gross fixed capital formation
- Exports;
- Imports.

**Consumption**. As was the case in 2003, surging consumer spending was the main factor that boosted economic growth. It is expected that the final consumption would surge by 20% over 2003 and would contribute 18% to the GDP growth.

Considerable remittances from abroad and growing salaries in the country have been the major factors that sustained economic growth and boosted the demand domestically. In our opinion remittances from abroad might diminish in the years to come and this because of family reunification abroad.

Still, if remittances are sustainable in the long run, economic growth based on consumption alone, would increase and consolidate structural disproportions. An illustration in this respect are surging imports that deteriorated current account. Massive imports have a negative impact on the current account deficit that has soared to 6.7% of the GDP.

**Investments in fixed assets**. As for investments, they had a quite modest contribution to GDP. Still, gross investments in fixed assets surged by 15% and had a 2.5% contribution to GDP. After a long while foreign investments show some positive signs. Total FDI in Moldovan economy has reached 100 million USD.

Although from an institutional point of view business environment registered a decline, fiscal conditions improved in 2004. Income tax for businesses dropped by 2% to a record 20%. Moreover, Government announced that in 2005 it would drop it even further. Therefore it is our belief that reducing fiscal burden would have a positive effect on the investment climate.

**Exports**. Certainly, surging production output of goods intended for exports in 2004 boosted GDP, especially due to growing exports of food and beverages. According to some preliminary data, exports shot up by 25.5% and reached 900 million USD.

**Imports**. Nevertheless, skyrocketed imports by 29% (1.6 billion USD) have shattered even further the trade balance. Statistics indicates that in the 11 months of the 2004 trade balance deficit reached an alarming 690 million USD, quite likely that for the 12 months of the year it would hit 800 million USD. Accordingly, the negative trade balance would soar by another 30% over 2003.

In 2005 and particularly in 2006 the gap between exports and imports would diminish and this because of those two factors:

- **Firstly**, current trade barriers set by the neighbouring countries (Romania and Ukraine) on the exports of eggs, poultry and sugar from Moldova would be abolished.
- **Secondly**, foreign demand would increase especially on beverages.

Some problems might arise with the exports of agricultural and food products. For instance CEE countries that are importing food from Moldova would join EU's CAP (Common Agricultural Policy) and would have to give priority to the goods manufactured within EU.

**Other indicators that influenced macroeconomic situation in the country over 2004**

**Agriculture**. We should also acknowledge that a good agricultural output also bolstered the economic growth. For instance, wheat harvest exceeded 830 thousand tones. Nevertheless, agriculture still remains to be extensive and backward. Recession in agriculture gave rise to unemployment. We wouldn't be as lucky this year, as it weren't agricultural policies that determined the success of 2004 but rather good weather. It may well happen that in 2005 prices on wheat would go up due to unfavourable weather conditions and surging demand worldwide.

**Foreign investments**. Diminishing FDI registered since 2000, points to the flawed economic policies that continue to undermine investors' trust in Moldova. Foreign investments flow is recovering after a long sluggishness. Total FDI in Moldovan economy in 2004 has exceeded 100 million USD.

**Privatization**. It was stagnating this year. In general, 2001-2004 were marked by numerous failures in privatization of such giants as MoldTelecom (telecommunications), RED Nord and Nord-Vest (energy sector) and many more wineries.

It is our belief that RED Nord and Nord-Vest privatization was thwarted for political rather than economic reasons. It is known for a fact that the price on one kW/hour delivered by RED Nord is much cheaper than the price of the same unit delivered by RED Centre and Sud-Vest. Everything is all-too-clear considering that the ruling party's electorate is at the north of the country.

Moreover, Government initiated re-nationalization of certain privatized companies such as Dacia Hotel, Air Moldova - air career, and Farmaco - pharmaceutical company, while provided no compensation whatsoever to the investors. Furthermore, the heavy-handed cancellation of privatization contracts scared away many investors from investing in Moldova.

**Exchange rate**. Over 2004 Leu continued to appreciate against USD. There are several reasons for that:

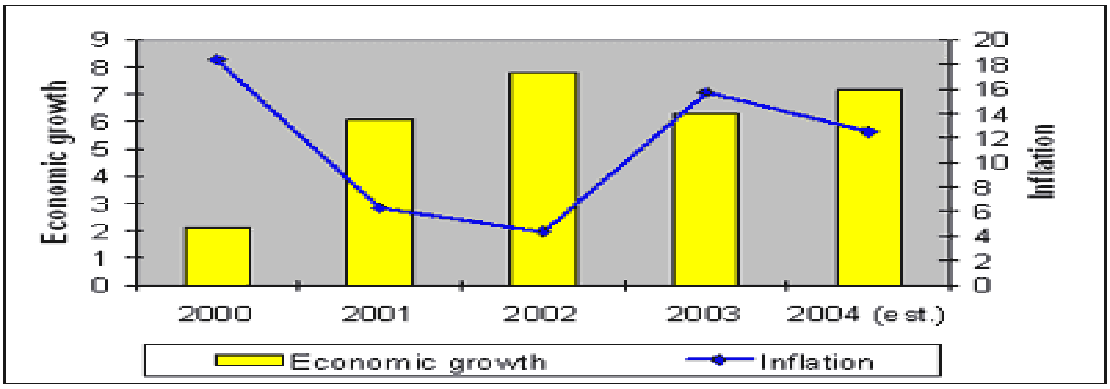
- Upsurging trade (foreign trade shot up by 26% over 2003);
- Skyrocketed remittances sent via banking system and non-banking channels (estimated at 1 billion USD);
- Increased consumer spending habits of the population.

Meanwhile, National Bank of Moldova continued to purchase foreign currency and according to preliminary data by the end of 2004 its reserves have reached 455 million USD.

**Inflation**. Cumulative inflation rate reached 12.5% in 2004. This figure outstripped Government forecasts by 2.5%, nevertheless it dropped as compared to 15.7% in 2003. Still, price hike on food pushed inflation further upward in certain months of the year.
Better inflation performance in 2004 over 2003 might be also explained by the appreciation in real terms of the Leu against USD. For instance in 2004 average nominal exchange rate was 12.4 MDL/USD as compared to 14.2 MDL/USD in 2003.

Due to **parliamentary elections** politics would again prevail over economics, therefore we should expect an increased control over price hikes. Electoral campaign is already in full swing, while the election outcomes would be of strategic importance for the fate of Moldovan economic environment.

**Dynamics of economic growth and inflation (%)**




***Source***: *Statistics and Sociology Department*

**Positive economic signals between Chisinau and Bucharest**
Iurie Gotisan, 3 February 2005

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*Democracy and governing in Moldova*
*e-journal, III year, no. 45, January 17-January 30, 2005*

The recently visit at Chisinau of Romanian President Traian Basescu put an end to overshadowed relations because Moldavian government had accused Romania of "expansionism" and interference in Moldova's domestic affairs. Among others, during his visit to Chisinau Romanian President stated Bucharest will support and develop economical relations with Republic of Moldova. Moreover, he said that Romania had engaged to be the most loyal advocate of Moldova in Europe and will never allow it to be blackmailed by threatening its energetical security.

The coldness in Moldovan-Romanian relations affected not only politics but also economics. To cite just the propositions made by Bucharest 2-3 years ago to finish together with the Moldavian part the construction of atomic electrical station from Cernavoda, thereby providing electric power generated by one of the reactors to the Republic of Moldova. Noteworthy those propositions were quite advantageous, still they were never realised. Of course, it required a financial effort from the Moldovan side, but we think it would have been worthwhile on a mid and long term.

It is known for a fact that Republic of Moldova imports over 90% from the electricity it consumes. Natural gas accounts for 50% of the energy cost, fuel 30%, the main supplier being Russian Federation. In fact, Moldova morphed into an object of Russian energetical policy being deprived of an active position in negotiations. We remain dependent on the Russian energy, more specifically on "Gazprom", the only monopolist supplying the Moldavian stations with natural gas and fuel, still Chisinau government made quite few attempts to diversify its suppliers.

Life-buoy came from Bucharest. Romanian President announced at the end of last year that he agreed to supplying electricity to Moldova. This came in response to Chisinau requests for assistance following the cut-off of electricity by Cuciurgan electric power station from Transdniestria. Basescu's clear and convincing message once again confirmed the fact that Romanian part was committed to pull Moldova from its energy dependence on Russia. The more so as Moldova is connected to electricity lines of Romania, which allow both the import and export of electrical power.

At the same time, the Bucharest government agreed to supply energy to Chisinau on condition the former recognised a $32 millions debt for previously supplied electricity. It is hard to say how and from what sources would Republic of Moldova reimburse the debt. Still we think that Bucharest will be generous and make some big concessions to Chisinau as regards the grace period and interest rates.

Basescu's paid a visit the same day when Chisinau government signed the contract of $250 millions with the Azerbaijan company "Azpetrol" for completing the construction of fuel terminal in Giurgiulesti. Let's hope that this project will be finished. If so, besides gaining energetical security and cutting transportation costs, Moldova's geographical position at the crossroads of the three geo-economical zones (between CIS, South-Eastern Europe and Black Sea region) will enable it to become a transit corridor, thereby bringing additional benefits (for instance, petroleum transit via Baku-Tbilisi-Ceyhan pipe line). In the future it may well happen that Moldova would no longer be an importer, but an exporter of fuel.

But let's go back to our subject. Economic relations between Bucharest and Chisinau were even more tensed in the spring of 2003, when Romania blamed Republic of Moldova that it exported sugar cane on the Romanian market, specifically that sugar was imported to Moldova and then re-exported, thereby violating free trade bilateral agreement. Additionally, officials from Bucharest often reported that products (such as sugar, meat, eggs etc.) imported from Moldova didn't always met the quality standards imposed by Brussels to Romania for joining EU.

Currently Romania agreed to cancel current commercial sanctions imposed to Moldova for eggs, poultry, pork, sugar exports. And probably the move would reduce the trade balance deficit between Romania and Moldova. Romania accounts for 11% in the trade with Moldova being Moldova's biggest partner in Central Europe. Romanian exports go mainly (over 60%) to European Union.

The positive developments registered by Romania in finalising the negotiations on accession to EU, the 5% economic growth, reduction of unemployment to 7%, 10% drop of inflation, favourable business and investment climate enable Romania to project a favourable image abroad. For instance, in Romania the annual average of foreign direct investments (FDI) reached $1.5 billions, while total FDI in Moldova over the 10 years of transition has hardly reached $800 millions.

Finally, Chisinau should preserve and consolidate privileged relations with Romania, at least because it is an "entrance door" to EU. And in general, we think that in the years to come economic and commercial ties between Moldova and Romania would also test the formers' relations with EU. It is also true that Moldova's "place under the sun" is not predestined. It is up to us, especially so political and intellectual elite, to find the best way for Moldova to EU. We have to step on the path of modernization, and the parliamentary elections of March 6, 2005 would be an exceptional event in the history of Moldova!

**Foreign deficits, inflation, exchange rate...**
Iurie Gotisan, March 14, 2005

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*Democracy and governing in Moldova*
*e-journal, III year, no. 47, February 14-March 6, 2005*

The international rating agency Fitch Ratings has reconfirmed Moldova's Long-term Foreign Currency rating at "B-" Outlook Stable and the Long-term Local Currency rating at "B" Outlook Stable. On the other hand, Fitch Ratings warns that the economic and political situation in Moldova remains "very difficult" due to the growth of foreign debt, high domestic inflation and a strong exchange rate. This being the evolution, we come with certain commentaries to evaluations of Fitch Ratings, highlighting several aspects regarding the macroeconomic context.

Moldova's foreign debt accounted for 1.97 billion dollars in late 2004, rose by 2.8 percent compared with late 2003, and represented 76 percent of the Gross Domestic Product. The private unguaranteed debt held the highest share in the total foreign debt - about 1.09 billion dollars, and grew by 20 percent compared with 2003, particularly due to the growth of commercial credits. In addition, the trade deficit reached a record level of about 790 million dollars in 2004 or 30 percent of GDP, and the current account deficit likely turned over six percent of GDP.

These figures certainly confirm the tendency of foreign deficits in the past years, with decisive "contribution" of private sector. Even more, the growth of foreign deficits justifies the fear of many economists over possible skidding in 2005 and explains somehow why talks with the International Monetary Funds are difficult.

The bulk of the current account deficit last year particularly had its origin in non-budgetary sector. We do not rule out that given declining interest in lei and leu appreciation trends, it will be difficult to stop the rise of foreign deficits. As the non-budgetary sector has no intention to calm down its "hunger of lei" (internal demand), the public budget should combat the excessive rise of current account deficit.

The announced declines of interest rates for lei, higher salaries, expansion of consumption credit, an eventual appreciation of leu will favour a dynamic of internal demand which is much higher that internal supply. The decline of interest rates would give an impulse to credits in lei in an economy caught by consumption fever. If reduction of taxes in 2005 fails a sufficient encouragement of budget collections, expansion of consumption will result in a huge foreign deficit and probably in slower efforts to curb inflation. Appreciation of leu verso dollar helped somehow a lower inflation in 2004 than in 2003, but it also deepened the foreign deficits.

The National Bank of Moldova (BNM) solicited indeed the commercial banks to reduce the interest rates for deposits in order to lower the interest rate for credits. On one hand, the reduction of interest rates would favour the access of domestic businesses and non-residents to credits, access which would bring many liquidities to economy, but it would also harden the effort of BNM to control inflation. Therefore, it seems to me that postponement of lower interest rates (at least now) is the best measure. BNM should be more cautious over reduction of interest rates, while commercial banks should pay more attention to eventual system risks.

The macroeconomic evolution this year will also depend on reduction of fiscal burden. As budgetary incomes drop at least at a first stage, some compensatory measures are required unless internal demand would grow and provoke rise of foreign deficits and eventual inflationary pressures. The compensatory measures may include higher taxes and duties, distribution of some spending and other savings to budget, as for example, through reexamination of some public contracts. It's worth to mention that government's efforts would be substantially assisted by reduction of debts (estimated at about 1.41 billion lei) of businesses to public budget and efficient combat of fiscal evasion, efforts which would support disinflation and would limit foreign deficits.

We have often been witnesses of accusations against BNM regarding the exchange rate policy, and some of them were justified. An appreciated leu can combat inflationary outbreaks, but foreign deficits will deepen and effects will not be late. When the leu appreciates including its face value the consequences are borne first by exporters who earn less from sales abroad.

In addition, a long appreciation of leu, with some fluctuations, erodes the economic stability in case of inadequate productivity incomes, causing high deficits at level of firm and national economy. To rely on appreciation of leu as a factor which contributes to reduction of inflation may be a very risky solution. Some people speak about imminence of a financial crisis provoked by an eventual "run of capital" which would make the leu break down.

Ultimately the actions of the government will be judged under its dilemma relations with BNM, and the choice of economic policy is very difficult, since it claims significant compromise and costs. Anyway, a good cooperation between government and BNM is needed, especially because the March 6 parliamentary elections will influence the economic juncture in 2005.

**Chisinau's economic dependence on Moscow**
Iurie Gotisan, May 4, 2005

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*Democracy and governing in Moldova*
*e-journal, III year, no. 50, April 18-May 1, 2005*

Statistics show that the share of Moldovan exports on eastern markets in the total of exports dropped by 1.5 percentage points on average a year from 1995 to 2004, and by two percentage points in case of Russia. However, the Russian market remains a key market for Moldovan products in spite of these declines.

Even more, according to official statistics Russia's share in Moldova's exports is increasing again after the 1998 financial crisis. The Moldovan products exported to the Russian market accounted for about 40 percent of overall exports in 2004. The exports to the European Union rose much more slowly than expected, while the share of exports to Central Europe registered a visible decline.

Moldova's foreign trade had consolidated its faulty structure and it posts again a visible unilateral dependence on eastern markets, especially on Russia, determining the latter to take hostile enough attitudes towards Moldovan products and to dictate the rules of the market alone.

Moldova lacks so far enough "space of maneuver" to balance its ties with Russia, while the latter has already started taking actions. The stoppage or better saying the refusal of Russia to accept the meat imports from Moldova is a meaningful proof in this regard. Certain experts fear that Russia's decision has rather a political than economic nature.

It is worth to recall the recent "economic sanctions" of Russian authorities against wine imports from Moldova, but they finally highlighted the importance of Russian capital in Moldovan wineries. Perhaps this is the reason why the wine producers had been left alone, but Moscow found another pretext - the meat. The cereals could become soon another object of dispute between Russia and Moldova.

Moscow press reports quoted Russian experts as saying that the Moldovan meat unfits the qualitative veterinary and sanitary security standards compared with the meat of Ukraine, a country which holds modern meat processing facilities. However, the Russian side had earlier pretended not to observe the importation of allegedly bad production, though it knew these problems.

If we consider this problem from economic viewpoint, the prohibition of meat imports cannot influence the situation of Moldovan producers. The domestic producers do not meet the national demand, while exports are as small as eventual losses could be ruled out from the very beginning.

On the other hand, the Moldovan authorities did not reach the political and economic maturity and lack the ability to negotiate with Russia from equal positions by using the legislation in effect. The bilateral commercial agreements had also been subject of number of revisions, exceptions and derogations.

It is worth mentioning that both the Moldovan Parliament, and the Russian State Duma had ratified the protocol on annulment of exclusions from free trade between these two countries, which comprises products such as sugar, meat, alcohol products, and tobacco products. Under the protocol on annulment of exclusions, all the named products will be included in the free trade agreement in 2004-2012, while their circulation will be liberalized. Hence, the alleged "economic sanctions" of Russia would jeopardize its bids to join the World Trade Organization (WTO).

Russia often dictates the commercial relations with Moldova by using what we call "energy arm". The past years provided plenty of examples of incidents related to exports of energy resources to Moldova, particularly of natural gas, and Russia played the role of key protagonist. Even so, Chisinau could reply to Moscow, a solution would be to raise transit tariffs which can be deducted from import price.

Moldova has turned indeed into an object of Russian economic policy since it has no active stance in negotiations. If Chisinau fails to adopt a much better policy, Moldova's commercial dependence on Russia will become more visible soon.

**Vegetables and fruits might temper swelling inflation**
Iurie Gotisan, June 9, 2005

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*Democracy and governing in Moldova*
*e-journal, III year, no. 52, May 23 - June 5, 2005*

Both Government, National Bank (NB), National Statistics Bureau (NSB) and independent pundits forecast a slowdown in the price hike due to the seasonal food cheapening. In the summer the price on many food products goes down thus holding up the inflation. Statistically speaking, a considerable drop in food prices is registered in July and August. Deflation is not to be excluded during this period.

Falling prices on vegetables, bread and meat hang on to inflation. Food accounts for about 40% of the populations' consumption, accordingly any slight change in the prices affects the rest of economy. NB and NSB rely on statistics when calculating a price hike close to zero in the summer. The farmers overload the markets in towns with fruits and vegetables, thereby sending inflation down for several months. This year is not an exception. Pundits expect it would neutralize the effects of price hike on fuel and other food products, etc.

Apart from statistics and NSB's estimations, the current context sends the prices on agricultural products even further down. Shortly farmers would bring their fruits and vegetables to the market, while the newly harvested wheat would cheapen the bread, especially in rural areas. Sales on the domestic conserved market are very low throughout June 30 - October 1 due to extremely low prices on the market as farmers' supply is plenty.

If the prices on wheat go down in July, bread price might also go down. On the other hand, many experts doubt such an evolution, especially as massive investments in technology would be needed. Noteworthy, bread accounts for 1/5 of the expenses on food, accordingly it might greatly impact inflation in the next months.

There are other forces impinging on the prices as well. Imports are getting cheaper as the Leu is appreciating. Meat and sugar prices would get cheaper and cheaper. This holds true for the diary products, accounting for more than 10% of the population consumption, that are also likely to go down. Seasonal cheapening would send inflation down this summer. It remains to be seen if the problems in agriculture would allow for long-term stability of the prices, or the prices on food would surge again. We'll see…

**Macroeconomic evolutions. Tendencies for future**
Iurie Gotisan, June 23, 2005

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*Democracy and governing in Moldova*
*e-journal, III year, no. 53, June 6-19, 2005*

The statistics on macroeconomic evolutions in the 1st quarter of 2005 complied with the general forecasts for this year. Although the inflation rate for April was relatively high (1.4 percent), the consumer price index for May was 0.1 percent. **The economic growth (of GDP) in the 1st quarter was 8.2 percent**, compared with the 6-percent annual average forecasted by government for this year. The estimated value of GDP for January-March exceeded 7.13 billion lei in current prices. The GDP growth was mainly due to the rise of production volume and, as a result, of gross added-value by 11.7 percent, while the industry posted a 5.2-percent advance, according to data of the National Bureau for Statistics.

**The final consumption rose by 12.7 percent the first three months**, while investments grew by 16.2 percent. Indeed, the consumption will be the engine of economic growth in 2005 as well. The rise of the final consumption can be partly explained by evolution of the internal credit through reduction of interests and appreciation of national currency. In addition, the growth of consumption is also due to rise of trade deficit, which accounted for about 293 million dollars in January-April 2005. Of course, the imports cover most of internal consumption, as an enough internal supply is absent. If these tendencies of growth of trade deficit continue the same way, a level of 400 million dollars could be registered in the first half of this year, and about one billion dollars could be recorded for the entire year 2005. Under these conditions, the trade deficit will become the No.1 problem in the macroeconomic policy agenda of the government for 2005-2006 [1].

**The 10-percent inflation level for this year will be exceeded**, if taking into account the fact that the *basic inflation* in January-April was 14.2 percent, and it will be higher than the 12.5-percent rate registered in 2004, for sure. The deflation phenomenon in case of prices of certain products (especially food products) could appear within 2-3 months. We think indeed that an inflation rate below 0 percent could be registered in August. However, if inflationary tendencies remain unchanged, we could expect a growth of interest rates. On the other hand, we cannot make the conclusion that the interest reduction policy (implemented by most of banks in Moldova in February 2005) could take a reverse way, of growth of interest rates. We are tempted to consider that the interests will not invert their trend, though certain banks could easily modify their interests for deposits of population, probably from reasons which are rather related to their internal policies, not exclusively because of inflation or amendments to monetary policy.

In addition, the **growth of monetary mass by about 5 percent in April**, especially through sterilization process and interventions of the National Bank of Moldova (BNM) on the currency market, **led to higher prices**. BNM has encouraged the rise of liquidity surplus on monetary market, in a larger or smaller dose, through its policy on maintenance of exchange rates (or raising of a "best" level of international reserves), though it does not recognize this. In addition, though the surplus of liquidity was not observed in the rise of prices of consumption products, it was visible in other sectors of economy. As for example, prices on the real estate market grew by about 15-20 percent, or presence of an increasing trade deficit and deficit of current account based on the rise of consumption and credits for consumption.

**The real salary rose by 2 percent, compared with the 1st quarter of 2004**. The salary rise registered a modest contribution in the 1st quarter, having source in industry, and partly, in bank sector. The decline of the salary rise paces was observed in the final consumption of population as well, which decreased in the 1st quarter of 2005. In our opinion, this evolution was a result of higher prices of food products, as well as to the increasing wish of population to save money, since deposits rose by 12 percent in the bank system.

On the other hand, the avalanche of assistance, electoral subsidies and salary rises will hardly show their efficiency. The government launched several measures of social protection. **There was strong political and electoral reasoning in the 1st quarter of 2005**, so that an important part of the public budget was directed to social payments typical to a kept, assisted population. The doubling of spending for social programs is dangerous, especially because these measures are often exacerbated for a political purpose, not for a growth of spending for economic services or public investments.

**Incomes in the amount of about three billion lei were raised to the national budget in the 1st quarter of 2005**, by 28 percent more than in the similar period of 2004. According to experts, the rise of revenues seems to be the effect of reduction of the corporate income tax. The executive plans to reduce this tax down to only 15 percent by 2006. On the other hand, **a more liberal fiscal policy will lead to a higher inflation rate**, a growth which was registered indeed until recently. Perhaps, these steps of fiscal relaxation are part of the government strategy, which would encourage the illegal businesses to legalize and declare all their profits. However, a proverb says: "The wolf sheds his fur but not his nature." There were businesses which avoided the 28-percent income tax, and what guarantees we have now that they will give up this practice when a 15-percent tax will be enacted. This is an archaic business mentality rather than a fiscal burden of which businessmen complain often. In addition, foreign investors will not come to Moldova for the simple reason that corporate taxes are lower (indeed they are among the lowest ones in the region), but for a stable political and legislative climate, with opportunities to generate profit and to invest in economy.
**As for foreign economic relations**, we should recall the recent "economic sanctions" of the Russian authorities against imports from Moldova, which are based on a political, rather than economic factor, and still disturb the commercial inflows between the two countries. Also, a regress of Moldova's economic relations with the European Union states was observed, and namely through a decline of commercial exchanges and, respectively, of collections from exports.

**The negative tendencies overlapped the positive tendencies**. In the context, we can recall a proposal of President Voronin to the parliamentary commission for economy, budget and finances to annul the law on offshore duty that the legislature approved in April 2004, a law which was incapable from the very beginning to fulfill the goals of its developers, "to make order in imports." The Economics and Trade Ministry has drafted **a new program on sustenance of small- and medium-sized enterprises (SME)**. The key objective of the program for 2006-2008 is to increase to maximum the contribution of SME sector to the economic growth, while improvement of the legislative framework, facilitation of access to financing, especially of SME in the rural areas, development of a dialogue between public and private sectors, and a better cooperation between big and small enterprises are among priorities.

The "guillotine" law **gave green light to the regulatory reform**. Under provisions of the law, all the legislative and normative documents which regulate the entrepreneurial activity will be reviewed, while those which limit the free private initiative will be annulled. The adoption of the new leasing law by parliament is also part of the positive tendencies for business environment. In addition, the World Bank gave positive signals in the period concerned regarding the implementation of economic reforms, very useful signals for business and investment climates.

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[1] http://www.expert-grup.org/pub/BERrom4.doc